THE CITADEL

THE MILITARY COLLEGE OF SOUTH CAROLINA

CHARLESTON, SOUTH CAROLINA

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

YEAR ENDED JUNE 30, 2002

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State of South Carolina

Office of the State Auditor
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November 15, 2002

The Honorable Jim Hodges, Governor
and
Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

This report on the audit of the financial statements of The Citadel, The Military College of South Carolina, for the fiscal year ended June 30, 2002, was issued by Cherry, Bekaert, & Holland, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

CHERRY BEKAERT& HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditors' Report

The Office of the State Auditor
and
Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

We have audited the accompanying financial statements of **The Citadel, The Military College of South Carolina**, (The Citadel) as of June 30, 2002 and for the year then ended as listed in the table of contents. These financial statements are the responsibility of The Citadel's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The Citadel Trust, Inc., a component unit of The Citadel, which financial statements reflect 31% of total assets and 2% of total revenues. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements of The Citadel are intended to present the financial position, results of operations, and cash flows of only that portion of the State of South Carolina financial reporting entity that is attributable to the transactions of The Citadel, an institution of the State of South Carolina.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The Citadel as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, The Citadel adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments;* Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and* Universities, as of July 1, 2001. Also, as discussed in Note 20, The Citadel changed its capitalization policy and corrected an error in recording revenue from State capital improvement bonds. The effects of these changes have been recorded as an adjustment to net assets at July 1, 2001.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 30, 2002 on our consideration of The Citadel's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of The Citadel, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Cherry, Bekaert & Holland, L.L.P.

Florence, South Carolina
September 30, 2002

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2002

Overview of the Financial Statements and Financial Analysis

The Citadel is proud to present its financial statements for fiscal year 2002. The emphasis of discussions about these statements will be on current year data. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of the college's financial statements provides an overview of its financial activities for the year. A requirement of the Management's Discussion and Analysis is that it should discuss the current-year results in comparison with prior year, with emphasis on the current year. In future years, this comparison with the prior year will be made, but because this is the first year of the new accounting standards and the college is not required to restate prior year data, no comparisons can be made.

Statement of Net Assets

The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of The Citadel. This statement presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current), and net assets (assets minus liabilities). The difference between current and non-current assets will be discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

Net assets are divided into three major categories. The first category, *invested in capital assets*, *net of debt*, provides the institution's equity in property, plant, and equipment owned by the institution. The next asset category is *restricted net assets*, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is *unrestricted net assets*. Unrestricted assets are available to the institution for any lawful purpose of the institution.

Condensed Summary of Net Assets for FY 2002

Assets	
Current assets	$ 23,349,807
Non-current assets	45,522,697
Capital assets, net	80,533,879
Total assets	149,406,383
Liabilities	
Current liabilities	7,683,538
Non-current liabilities	27,544,725
Total liabilities	35,228,263
Net Assets	
Invested in capital assets, net of related debt	56,323,824
Restricted – nonexpendable	18,901,303
Restricted – expendable	25,278,398
Unrestricted	13,674,595
Total net assets	$ 114,178,120

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2002

Statement of Revenues, Expenses and Changes in Net Assets
The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues received by the institution, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains or losses received or spent by the institution.

Operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which goods and services are not provided. For example, state appropriations are non-operating because they are provided by the Legislature to the college without the legislature directly receiving commensurate goods and services for those revenues.

Condensed Summary of Revenues, Expenses and Changes in Net Assets for FY 2002

Operating Revenues:	
Student tuition and fees (net of scholarship allowance of $3,193,566)	$ 13,218,528
Federal grants and contracts	2,633,094
State grants and contracts	828,960
Nongovernmental grants and contracts	2,413
Sales and services of educational and other activities	832,279
Sales and services of auxiliary enterprises (net of scholarship allowances of $330,035)	2,840,805
Auxiliary revenue pledged for revenue bonds (net of scholarship allowances of $2,061,373)	16,648,323
Other fees	451,724
Investment income (net of investment expenses of $198,123)	(4,460,866)
Endowment income	1,390,743
Other operating revenues	436,677
Total operating revenues	34,822,680
Operating Expenses:	
Compensation and employee benefits	33,981,822
Services and supplies	22,649,852
Utilities	2,228,806
Scholarships and fellowships	2,126,773
Depreciation expense	3,222,494
Total operating expenses	64,209,747
Operating loss	(29,387,067)
Non-operating revenues and expenses	26,450,470
Income (loss) before other revenues, expenses, gains or losses	(2,936,597)
Other revenues	3,709,501
Increase in net assets	772,904
Net assets - beginning of year, as restated	113,405,216
Net assets - end of year	$ 114,178,120

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2002

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in net assets at the end of the year.

Statement of Cash Flows
The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Summary of Cash Flows for FY 2002

Cash provided (used) by:	
Operating activities	$ (22,581,967)
Non-capital financing activities	26,245,118
Capital financing activities	(2,042,325)
Investing activities	1,397,519
Net increase in cash and cash equivalents	3,018,345
Cash and cash equivalents - beginning of year	17,396,503
Cash and cash equivalents - end of year	$ 20,414,848

Capital Asset and Debt Administration
The college had two significant capital asset additions during the year. The Altman Building (Stadium End Zone Building) was completed and the football teams were able to use the facilities during the fall 2001 football season. A female locker room facility was completed. Both were funded primarily by $3 million Athletic Facility Revenue Bonds issued in 2001. The college issued a $2,750,000 Institution Bond (guaranteed by the full faith and credit of the State) in the fall of 2001 and is using the proceeds primarily to renovate Deas Hall, the Health and Physical Education building.

Economic Outlook
The College is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations.

The College's overall financial position is strong. Even with appropriation reductions during this fiscal year, the College was able to generate a modest increase in Net Assets. The College was aware of projected state appropriation decreases at the time it established it fees for next year. Management anticipates that the new fiscal year will be much like the last. The college will maintain a close watch over resources to maintain its ability to react to unknown internal and external issues.

THE CITADEL

The Military College of South Carolina
Statement of Net Assets
For the year ended June 30, 2002

	Primary Institution	Component Unit	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 10,924,337	$ 464,397	$ 11,388,734
Investments	-	607,592	607,592
Accounts receivable, net	1,581,167	279,118	1,860,285
Pledges receivable	92,456	583,949	676,405
Student loans receivable, current	-	77,987	77,987
Note receivable	10,000	-	10,000
Inventories	1,867,849	-	1,867,849
Prepaid items	487,403	33,452	520,855
Restricted cash and cash equivalents	5,833,344	234,279	6,067,623
Restricted investments	-	272,477	272,477
Total current assets	20,796,556	2,553,251	23,349,807
Noncurrent Assets			
Restricted cash and cash equivalents	1,457,142	1,501,349	2,958,491
Investments	-	1,274,542	1,274,542
Restricted investments	-	38,172,026	38,172,026
Pledges receivable	-	1,459,868	1,459,868
Student loans receivable, net	575,658	441,892	1,017,550
Notes receivable	79,000	-	79,000
Capital assets, net of accumulated depreciation	80,533,879	-	80,533,879
Other assets	205,868	355,352	561,220
Total noncurrent assets	82,851,547	43,205,029	126,056,576
TOTAL ASSETS	103,648,103	45,758,280	149,406,383
LIABILITIES			
Current Liabilities			
Accounts payable	1,652,084	1,095	1,653,179
Accrued interest payable	317,969	-	317,969
Accrued payroll and related liabilities	1,638,184	3,491	1,641,675
Accrued compensated absences	1,050,245	-	1,050,245
Long-term liabilities - current portion	1,371,095	-	1,371,095
Deferred revenues	999,694	-	999,694
Deposits	641,491	-	641,491
Annuities payable - current portion	-	8,190	8,190
Total current liabilities	7,670,762	12,776	7,683,538
Noncurrent Liabilities			
Perkins Loan Program - Federal liability	503,786	-	503,786
Accrued compensated absences	780,110	-	780,110
Deposits	366,998	-	366,998
Deferred compensation liability	-	433,653	433,653
Long-term liabilities	25,429,995	-	25,429,995
Annuities payable	-	25,586	25,586
Funds held for others	4,597	-	4,597
Total noncurrent liabilities	27,085,486	459,239	27,544,725
TOTAL LIABILITIES	34,756,248	472,015	35,228,263
NET ASSETS			
Invested in capital assets, net of related debt	56,323,824	-	56,323,824
Restricted for:			
Nonexpendable			
Scholarships	-	16,352,373	16,352,373
Other	-	2,472,583	2,472,583
Annuity	-	76,347	76,347
Total restricted nonexpendable net assets	-	18,901,303	18,901,303
Expendable			
Scholarships, research, instruction and other	1,166,069	20,325,063	21,491,132
Loans	118,403	1,001,117	1,119,520
Capital projects	2,459,685	199,814	2,659,499
Debt service	8,247	-	8,247
Total restricted expendable net assets	3,752,404	21,525,994	25,278,398
Unrestricted	8,815,627	4,858,968	13,674,595
TOTAL NET ASSETS	$ 68,891,855	$ 45,286,265	$ 114,178,120

See Accompanying Notes to the Financial Statements.

THE CITADEL

The Military College of South Carolina
Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended June 30, 2002

	Primary Institution	Component Unit	Total
REVENUES			
Operating Revenues			
Student tuition and fees (net of scholarship allowances of $3,193,566)	$ 13,218,528	$ -	$ 13,218,528
Federal grants and contracts	2,633,094	-	2,633,094
State grants and contracts	828,960	-	828,960
Nongovernmental grants and contracts	2,413	-	2,413
Sales and services of educational and other activities	832,279	-	832,279
Sales and services of auxiliary enterprises (net of scholarship allowances of $330,035)	2,840,805	-	2,840,805
Auxiliary revenue pledged for revenue bonds (net of scholarship allowances of $2,061,373)	16,648,323	-	16,648,323
Other fees	451,724	-	451,724
Investment income (net of investment expenses of $198,123)	-	(4,460,866)	(4,460,866)
Endowment income	-	1,390,743	1,390,743
Other operating revenues	436,677	-	436,677
Total operating revenues	37,892,803	(3,070,123)	34,822,680
EXPENSES			
Operating Expenses			
Compensation and employee benefits	33,942,813	39,009	33,981,822
Services and supplies	22,616,690	33,162	22,649,852
Utilities	2,228,806	-	2,228,806
Scholarships and fellowships	2,126,773	-	2,126,773
Depreciation expense	3,222,494	-	3,222,494
Total operating expenses	64,137,576	72,171	64,209,747
Operating loss	(26,244,773)	(3,142,294)	(29,387,067)
			-
NONOPERATING REVENUES (EXPENSES)			-
State appropriations	17,710,187	-	17,710,187
State grants and contracts	100,330	-	100,330
Nongovernmental grants	3,899,819	29,997	3,929,816
Gifts	1,625,636	3,496,340	5,121,976
Investment income	675,295	-	675,295
Interest on capital asset-related debt	(1,255,614)	-	(1,255,614)
Other nonoperating revenues (expenses)	118,566	49,914	168,480
Net nonoperating revenues	22,874,219	3,576,251	26,450,470
			-
Income before other revenues, expenses, gains or losses	(3,370,554)	433,957	(2,936,597)
			-
State capital appropriations	2,638,650	-	2,638,650
Capital grants and gifts	147,822	13,547	161,369
Gain (loss) on disposal of capital assets	(228)	-	(228)
Additions to permanent endowments	-	909,710	909,710
Transfers to/from component unit	3,906,813	(3,906,813)	-
Total other revenues	6,693,057	(2,983,556)	3,709,501
Increase (decrease) in net assets	3,322,503	(2,549,599)	772,904
NET ASSETS			
Beginning of year, as restated	65,569,352	47,835,864	113,405,216
End of year	$ 68,891,855	$ 45,286,265	$ 114,178,120

See Accompanying Notes to the Financial Statements.

THE CITADEL

The Military College of South Carolina
Statement of Cash Flows
For the year ended June 30, 2002

	Primary Institution	Component Unit	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and fees	$ 13,698,036	$ -	$ 13,698,036
Grants and contracts	3,762,586	-	3,762,586
Sales and services of educational activities	838,082	-	838,082
Auxiliary enterprise charges	19,711,872	-	19,711,872
Other operating receipts	379,225	-	379,225
Payments to employees for salaries and benefits	(33,724,848)	(39,009)	(33,763,857)
Payments to suppliers	(22,739,271)	(33,162)	(22,772,433)
Payments for utilities	(2,273,381)	-	(2,273,381)
Payments for scholarships and fellowships	(2,126,773)	-	(2,126,773)
Loans issued to students and employees	(122,502)	-	(122,502)
Collection of loans to students and employees	87,178	-	87,178
Net cash used for operations	(22,509,796)	(72,171)	(22,581,967)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State appropriations	17,710,187	-	17,710,187
Gifts and grants for other than capital purposes	5,795,034	2,451,287	8,246,321
Student direct lending receipts	10,375,260	-	10,375,260
Student direct lending disbursements	(10,375,260)	-	(10,375,260)
Collections on note receivable	20,000	-	20,000
Other non-operating revenues/expenses	118,566	187,356	305,922
Student organization agency transactions	(37,312)	-	(37,312)
Transfers from component unit	3,906,813	(3,906,813)	-
Net cash provided by noncapital financing activities	27,513,288	(1,268,170)	26,245,118
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Proceeds from capital debt	2,750,000	-	2,750,000
Capital appropriations	2,776,700	-	2,776,700
Capital grants and gifts received	1,699	13,547	15,246
Proceeds from sale of capital assets	1,916	-	1,916
Purchases of capital assets	(5,162,184)	-	(5,162,184)
Principal paid on capital debt and leases	(1,180,797)	-	(1,180,797)
Interest paid on capital debt and leases	(1,243,206)	-	(1,243,206)
Net cash used for financing activities	(2,055,872)	13,547	(2,042,325)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	-	41,192,361	41,192,361
Interest and dividends on investments	649,658	1,417,608	2,067,266
Purchase of investments	-	(41,862,108)	(41,862,108)
Net cash provided by investing activities	649,658	747,861	1,397,519
Net increase (decrease) in cash	3,597,278	(578,933)	3,018,345
CASH AND CASH EQUIVALENTS			
Beginning of year	14,617,545	2,778,958	17,396,503
End of year	$ 18,214,823	$ 2,200,025	$ 20,414,848
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Net decrease in fair value of investments	$ -	$ (2,818,459)	$ (2,818,459)
Borrowing under capital leases	$ 57,889	$ -	$ 57,889
Assignment of Perkins Loans	$ 29,257	$ -	$ 29,257
Gifts in kind	$ 26,141	$ 80,330	$ 106,471

See Accompanying Notes to the Financial Statements.

THE CITADEL

The Military College of South Carolina
Statement of Cash Flows (continued)
For the year ended June 30, 2002

	Primary Institution	Component Unit	Total
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES			
Operating (loss)	$ (26,244,773)	$ (3,142,294)	$ (29,387,067)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation expense	3,222,494	-	3,222,494
Interest and dividends on investments	-	(1,694,656)	(1,694,656)
Realized gains and losses on investments		4,764,779	4,764,779
Gifts in kind	7,996	-	7,996
Changes in assets and liabilities:	-	-	-
Accounts receivable	333,788	-	333,788
Inventories	(53,219)	-	(53,219)
Loans to students	(6,067)	-	(6,067)
Prepaid expenses	(106,958)	-	(106,958)
Accounts payable and accrued expenses	46,980	-	46,980
Compensated absences	168,578	-	168,578
Deferred revenue	101,170	-	101,170
Student and other deposits	20,215	-	20,215
Net cash used for operating activities	$ (22,509,796)	$ (72,171)	$ (22,581,967)

See Accompanying Notes to the Financial Statements.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2002

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Citadel is a State-supported, coeducational institution of higher education. The Citadel's primary purpose is to educate undergraduates as members of the South Carolina Corps of Cadets and to prepare them for post-graduate positions of leadership through academic programs of recognized excellence supported by the best features of a structured military environment.

Reporting Entity: The financial reporting entity, as defined by GASB Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of The Citadel, as the primary government, and the accounts of The Citadel Trust (the "Trust"), its component unit.

The Trust was formed in 1991 as a non-profit eleemosynary corporation for the purpose of investing funds in order to provide scholarship and other financial assistance or support to The Citadel. The Trust is governed by a board of trustees appointed by The Citadel Board of Visitors. In addition, Citadel employees and facilities are used for virtually all activities of the Trust. Accordingly, the Trust has been reported as a blended component unit in the financial statements. The Trust is considered governmental in nature and, therefore, is subject to the governmental accounting model. Separate financial statements of the Trust can be requested from the College's controller at the following address: The Citadel, 171 Moultrie St., Charleston, SC 29409.

The Citadel is part of the primary government of the State of South Carolina.

Financial Statements: The financial statement presentation for The Citadel has been changed to meet the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.* The financial statement presentation provides a comprehensive, entity-wide perspective of the College's net assets, revenues, expenses and changes in net assets and cash flows that replaces the fund-group perspective previously required.

Basis of Accounting: For financial reporting purposes, The Citadel is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The Citadel has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Cash and Cash Equivalents: For purposes of the statement of cash flows, The Citadel considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents.

Investments: The Citadel accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to The Citadel's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories: Inventories for resale are carried at cost on a first-in, first-out basis. Other inventories are carried at the lower of cost or market determined by moving weighted average basis.

Capital Assets: Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Citadel follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The College capitalizes movable personal property with a unit value in excess of $5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of $100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of $5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

Deferred Revenues and Deposits: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, student fee refunds, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated Absences: Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses, and changes in net assets.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets: The Citadel's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the Citadel is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

The Citadel's policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

Income Taxes: The Citadel, as a political subdivision of the State of South Carolina, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. The Trust is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Classification of Revenues: The Citadel has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the College's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students; (2) receipts for scholarships where the provider has identified the student recipients; (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by The Citadel; and (4) grants and contracts that are essentially the same as contracts for services that finance programs The Citadel would not otherwise undertake. For The Citadel Trust, operating revenues consist of investment income and net increases or decreases in fair value of investments.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income (except investment income for The Citadel Trust as mentioned above), and any grants and contracts that are not classified as operating revenue or are not restricted by the grantor to be used exclusively for capital purposes.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sales and Services of Educational and Other Activities: Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The Citadel receives such revenues primarily from The Citadel Summer Camp.

Auxiliary Enterprises and Internal Service Activities: Auxiliary enterprise revenues primarily represent revenues generated by intercollegiate athletics, cadet store, gift shop, barracks, dining hall, infirmary and printing services. Revenues of internal service and auxiliary enterprise activities and the related expenditures of college departments have been eliminated.

Changes in Accounting and Restatement of Beginning Net Asset Balances: As a result of the adoption of GASB Statement No. 34, The Citadel was also required to make certain changes in accounting principles. These changes are discussed in detail in Note 20.

NOTE 2—CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS

All deposits and investments of The Citadel are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Deposits and investments of The Citadel's component units are not under the State Treasurer's control and are deposited or invested by financial institutions and brokers.

The following schedule reconciles deposits and investments within the footnotes to the statement of net assets amounts:

Statement of Net Assets		Footnotes	
Cash and cash equivalents (current)	$ 11,388,734	Cash on hand	$ 55,652
Restricted cash and cash equivalents (current)	6,067,623	Deposits held by State Treasurer	18,538,222
Restricted cash and cash equivalents (noncurrent)	2,958,491	Other Deposits	531,483
Investments (current)	607,592	Investments	41,616,128
Restricted investments (current)	272,477		
Investments (noncurrent)	1,274,542		
Restricted investments (noncurrent)	38,172,026		
	$ 60,741,485		$ 60,741,485

Noncurrent Cash

Noncurrent cash consists of the following:

	Citadel	Component Unit	Total
Cash restricted for endowments	$ 219,078	$ 1,495,832	$ 1,714,910
Cash restricted for capital items	1,170,937	5,517	1,176,454
Cash restricted for Perkins Loan Program	62,530	-	62,530
Cash held for other parties	4,597	-	4,597
	$ 1,457,142	$ 1,501,349	$ 2,958,491

NOTE 2—CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS (continued)

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2002, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Other Deposits

The Citadel's other deposits are categorized as to credit risk as either (1) insured or collateralized with securities held by The Citadel or by its agent in The Citadel's name, (2) collateralized with securities held by the pledging financial institution's trust department or agent in The Citadel's name, or (3) uninsured or uncollateralized.

All but $21,215 of other deposits are owned by The Citadel Trust, a component unit of The Citadel. The other deposits owned by The Citadel relate to required loan deposits ($16,000) and cash on hand with the College's Perkins Loan servicer. A summary of June 30, 2002, bank balances by risk category follows:

	Category of Risk 1	2	3	Bank Balance	Reported Amount
Cash deposits	$ 526,928	65	-	$ 526,993	$ 531,483

Investments

All investments are owned by The Citadel Trust, a component unit of The Citadel. Authorized investments include U.S. government/government-insured securities, corporate stocks and bonds, and open-ended mutual funds, as authorized by trust agreements and The Citadel Trust Board of Directors.

The Citadel's investments are categorized as to credit risk as either (1) insured or registered, or securities held by The Citadel or its agent in The Citadel's name; (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in The Citadel's name; or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in The Citadel's name.

At June 30, 2002, The Citadel's investments consisted of the following:

	Category of Risk 1	2	3	Reported Amount	Fair Value
U.S. Treasury Notes/Bonds	$ -	$ 4,474,740	$ -	$ 4,474,740	$ 4,474,740
U.S. Government and Agency Bonds	113,547	2,229,886	-	2,343,433	2,343,433
Corporate Bonds	166,587	11,055,434	-	11,222,021	11,222,021
Corporate Stocks	14,749,306	2,514,081	-	17,263,387	17,263,387
	$ 15,029,440	$ 20,274,141	$ -	$ 35,303,581	$ 35,303,581
Investments not subject to categorization:					
Open-ended Mutual Funds				6,312,547	6,312,547
Total Investments				$ 41,616,128	$ 41,616,128

NOTE 2—CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS (continued)

The investment types listed above include all investment types in which monies were held throughout the fiscal year and the balances therein fluctuated minimally in excess of the fiscal year-end balances.

NOTE 3—ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2002, are summarized as follows:

	Citadel	Component Unit	Total
Student fees	$ 829,281	$ -	$ 829,281
Auxiliary services	489,879	-	489,879
Federal grants and contracts	444,794	-	444,794
State grants and contracts	34,843	-	34,843
Nongovernmental grants and contracts	66,207	-	66,207
Accrued interest	133,546	277,048	410,594
Other	110,794	2,070	112,864
Gross receivables	2,109,344	279,118	2,388,462
Less allowance for uncollectibles	(528,177)	-	(528,177)
Net Accounts Receivable	$ 1,581,167	$ 279,118	$ 1,860,285

Allowances for losses for accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio.

NOTE 4—PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2002, is summarized as follows:

	Citadel	Component Unit	Total
Gift Pledges Outstanding:			
Operations	$ 100,000	$ 2,073,900	$ 2,173,900
Capital	-	75,000	75,000
Total gift pledges outstanding	100,000	2,148,900	2,248,900
Less:			
Unamortized discount to present value	(7,544)	(105,083)	(112,627)
Total pledges receivable, net	$ 92,456	$ 2,043,817	$ 2,136,273

Payments on pledges receivable as of June 30, 2002, are expected to be received in the following years

NOTE 4—PLEDGES RECEIVABLE (continued)

ended June 30:

	Citadel	Component Unit	Total
2003	$ 92,456	$ 583,949	$ 676,405
2004	-	496,925	496,925
2005	-	486,237	486,237
2006	-	476,706	476,706
	$ 92,456	$ 2,043,817	$ 2,136,273

Pledges for permanent endowments do not meet the eligibility requirements, as defined by GASB Statement 33, until the related gift is received. Accordingly, permanent endowment pledges to The Trust totaling $145,000 are not recognized as assets in the accompanying financial statements. Because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met.

No allowance for uncollectible pledges receivable has been recorded for the above pledges as The Citadel believes all pledges are collectible.

NOTE 5—LOANS RECEIVABLE

Loans receivable consists of loans made through The Trust's loan program and loans made through the Federal Perkins Loan Program. Citadel Trust student loans receivable are broken down into two classifications – those payments that will be received within the following fiscal year are classified as "current portion of loans receivable." The remaining payments are classified as noncurrent loans receivable. All Perkins student loans receivable are classified as noncurrent loans receivable.

The Perkins Loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the College determines that loans are uncollectible, the loans are written off and assigned to the US Department of Education. The Citadel's institutional loan program is administered similarly; except these loans are non-cancelable and written-off loans are not assigned to the US Department of Education.

The College has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2002, loan balances and allowances for uncollectible student loans are as follows:

	Citadel	Component Unit	Total
Loans Receivable	$ 647,431	$ 849,651	$ 1,497,082
Allowance for Uncollectible Loans	(71,773)	(329,772)	(401,545)
Net Loans Receivable	$ 575,658	$ 519,879	$ 1,095,537

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2002

NOTE 6—CAPITAL ASSETS

	Beginning Balance July 1, 2001	Increases	Decreases	Ending Balance June 30, 2002
Capital assets not being depreciated:				
Land and improvements	$ 2,445,847	$ 199,693	$ -	$ 2,645,540
Construction in-progress	2,858,273	4,493,074	(4,407,370)	2,943,977
Fine Arts	366,265	-	-	366,265
Total capital assets not being depreciated	5,670,385	4,692,767	(4,407,370)	5,955,782
Other capital assets:				
Land improvements	7,983,296	437,151	-	8,420,447
Buildings and improvements	91,095,923	3,770,526	-	94,866,449
Machinery, equipment, and other	4,032,258	239,632	(149,044)	4,122,846
Vehicles	917,305	71,784	(208,443)	780,646
Intangibles	154,875	-	-	154,875
Total other capital assets at historical cost	104,183,657	4,519,093	(357,487)	108,345,263
Less accumulated depreciation for:				
Land improvements	(532,220)	(558,245)	-	(1,090,465)
Buildings and improvements	(26,828,650)	(2,304,590)	-	(29,133,240)
Machinery, equipment, and other	(2,737,676)	(303,075)	142,412	(2,898,339)
Vehicles	(726,382)	(50,389)	205,989	(570,782)
Intangibles	(68,145)	(6,195)	-	(74,340)
Total accumulated depreciation	(30,893,073)	(3,222,494)	348,401	(33,767,166)
Other capital assets, net	73,290,584	1,296,599	(9,086)	74,578,097
Capital Assets, Net	$ 78,960,969	$ 5,989,366	$ (4,416,456)	$ 80,533,879

The gain (loss) on disposal of assets consisted of the following:

Gains on disposals	$ 3,064
Losses on disposals	(3,292)
Net loss on disposals	$ (228)

NOTE 7—PENSION PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South

NOTE 7—PENSION PLANS (continued)

Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System

The majority of employees of The Citadel are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost-of-living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2001, the employer contribution rate became 10.4 percent which included a 2.85 percent surcharge to fund retiree health and dental insurance coverage. The Citadel's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2000, 2001, and 2002, were $1,536,921, $1,603,333, and $1,690,136, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of $32,051 in the current fiscal year at the rate of .15 percent of compensation.

Police Officers Retirement System

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2001, the employer contribution rate became 13.15 percent which, as for the SCRS, included the 2.85 percent surcharge. The Citadel's actual contributions to the PORS for the years ending June 30, 2000, 2001, and 2002, were $40,412, $42,659, and $43,215, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of $839 and accidental death insurance contributions of $839 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

NOTE 7—PENSION PLANS (continued)

Optional Retirement Program
Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 2.85 percent from the employer in fiscal year 2002.

Certain of The Citadel's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were $286,718 (excluding the surcharge) from The Citadel as employer and $217,485 from its employees as plan members. In addition, The Citadel paid $5,437 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans
Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of The Citadel have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Executive Severance Plan
The Executive Severance Plan was adopted for certain of The Citadel's executive or highly compensated employees. The purpose of the plan is to offer those employees an opportunity to elect to defer the receipt of compensation in order to provide for severance pay and death benefits taxable pursuant to Section 451 of the Internal Revenue Code (IRC) of 1986, as amended. The plan is intended to be a "bona fide severance pay plan" and a "bona fide death benefit plan" as defined in Section 457(e)(11) of the IRC and a "top hat" severance pay and death benefit plan (i.e., an unfunded severance pay and death benefit plan maintained for a select group of management or highly compensated employees) under Section 401(a)(1) of the ERISA and Department of Labor regulations Sections 2520.104-23 and 2520.104-24. Eligible employees are any persons employed by the sponsor who are determined by the sponsor to be a select group of management or highly compensated employees and who are designated by the Board to be eligible employees under the plan. Three employees are currently designated to participate in this plan.

The Citadel Trust contributed $65,000 to The Citadel Executive Severance Plan in fiscal year 2002 and intends to contribute similar amounts in future years. Because this plan is a Section 457 (e) (11) plan, plan

NOTE 7—PENSION PLANS (continued)

assets remain the property of The Trust until paid or made available to participants and are subject to the claims of The Citadel's general creditors. At June 30, 2002, the $433,653 plan balance is reported as a deferred compensation liability.

A Supplemental Executive Retirement Plan functioning under Section 457(f) was established at the same time as the Executive Severance Plan. There are currently no participants in the Supplemental Executive Retirement Plan, and no funds have been invested in this plan.

Teacher and Employee Retention Incentive
Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost-of-living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

NOTE 8—POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Citadel are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to The Citadel for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of The Citadel for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 21,400 State retirees meet these eligibility requirements.

The Citadel recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of $2,129,645 for the year ended June 30, 2002. As discussed in Note 7, The Citadel paid $634,254 applicable to the 2.85 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to The Citadel's retirees is not available. By State law, The Citadel has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

NOTE 8—POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS (continued)

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost-of-living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

NOTE 9—CONTINGENCIES AND LITIGATION

The Citadel is party to various lawsuits arising out of the normal conduct of its operations. Except for a retaliation suit, in the opinion of College management, there are no material claims or lawsuits against the College that are not covered by insurance or whose settlement would materially affect the College's financial position. There is no insurance coverage in the retaliation suit. Management anticipates that the worst possible outcome is that the College will be required to pay $250,000 plus attorney's fees. Management and legal counsel do not expect this to happen; therefore, the College has not recorded any estimated loss liabilities for these lawsuits.

The Citadel participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

NOTE 10—CONSTRUCTION COSTS AND COMMITMENTS

The Citadel has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that The Citadel has sufficient resources available and/or future resources identified to satisfactorily complete the construction of these projects which are expected to be completed in varying phases over the next five years at an estimated total cost of $28,268,304. Of the total cost, approximately $24,216,000 is unexpended at June 30. Of the total expended through June 30, 2002, The Citadel has capitalized in the current fiscal year substantially complete and in use projects costing $4,407,370 in the applicable plant fund categories. This capitalized amount includes $93,878 of associated interest expense incurred during the construction period. Of the unexpended balance at June 30, 2002, The Citadel had remaining commitment balances of approximately $17,102,000 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. Retainages payable on these capital projects as of June 30, 2002, was $104,657. Major capital projects at June 30, 2002, which constitute construction in progress that will be capitalized when completed, are listed below.

Project Title	Estimated Cost	Amount Expended
Stadium Replacement	$ 600,000	$ 244,870
Rifle Range A & E	50,000	18,994
Padgett-Thomas Barracks Replacement	27,618,304	2,680,113
	$ 28,268,304	$ 2,943,977

NOTE 10—CONSTRUCTION COSTS AND COMMITMENTS (continued)

The amount expended includes only capitalized project expenditures and capitalized interest on construction debt for projects that are less than 90% complete, and does not include any noncapitalized expenditures.

At June 30, The Citadel had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs, and/or renovations to existing facilities. Costs incurred to date on these projects amount to approximately $1,403,000 at June 30, and the estimated cost to complete is approximately $2,927,000. At June 30, The Citadel had remaining commitment balances of approximately $448,000 with certain parties related to these projects. Retainages payable on the non-capitalized projects as of June 30, 2002, was $19,161.

The Citadel anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds. The State has issued capital improvement bonds to fund improvements and expansion of state facilities. The Citadel is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. The Citadel had $7,205,587 of authorized state capital improvement bond proceeds available to draw at June 30, 2002.

NOTE 11—LEASE OBLIGATIONS

Future commitments for capital leases and operating leases having remaining noncancelable terms in excess of one year as of June 30, 2002, were as follows:

Year ended June 30, 2002	Capital Leases/ Equipment	Operating Leases/ Equipment
2003	$ 33,102	$ 1,063
2004	33,102	1,063
2005	32,613	1,063
2006	4,446	-
Total minimum lease payments	$ 103,263	$ 3,189
Less: Interest	4,991	
Executory and other costs	23,919	
Present value of minimum lease payments	$ 74,353	

Capital Leases
Capital leases for various equipment are payable in monthly installments from current resources. Certain capital leases provide for renewal and/or purchase options. The carrying value of equipment held under capital leases totaled $100,854 as of June 30, 2002. Accumulated depreciation of this equipment totaled $33,911 at June 30, 2002. All capital leases are with third party vendors.

Operating Leases
The Citadel's noncancelable operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases and are generally payable on a monthly basis. Total rental payments for equipment were $1,063 for fiscal year 2002. All operating leases are with third party vendors.

NOTE 12—BONDS AND NOTES PAYABLE

Bonds Payable
Bonds payable consisted of the following at June 30, 2002:

	Interest Rates	Maturity Dates	June 30,2002 Balance
State Institution Bonds			
Series 1991	5.50% to 7.50%	12/01/06	$ 880,000
Series 2001D	4.25% to 5.50%	12/01/17	2,750,000
Total State Institution Bonds			$ 3,630,000
Revenue Bonds			
Series 1997	4.875% to 5.125%	04/01/17	$ 19,895,000
Series 2001	4.07%	02/14/04	3,000,000
Total Revenue Bonds			$ 22,895,000
Total Bonds Payable			$ 26,525,000

On December 1, 2001, the State of South Carolina issued $2,750,000 of General Obligation Institution Bonds on behalf of The Citadel. The proceeds of these bonds are to be used to partially fund improvements to various campus buildings. Related bond issue costs of $9,464 will be amortized over the life of the bonds.

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of annual debt requirements for the payment of principal and interest on state institution bonds. The legal debt margin for state institution bonds is that the maximum amount of annual debt service shall not exceed ninety percent of the sums received from tuition and fees for the preceding fiscal year. Tuition bond fees for the preceding year were $527,976, which results in a legal annual debt service at June 30, 2002, of $475,178. The annual debt service payments for the fiscal year ended June 30, 2002, were $269,221.

The Series 1997 Revenue Bonds are payable from and secured by a pledge of net revenues derived by The Citadel from the operation of the facilities constructed with the bond proceeds. These bonds are additionally secured by a pledge of additional funds. Additional funds are all available funds and academic fees of The Citadel which are not (i) otherwise designated or restricted; (ii) funds derived from appropriations; and (iii) tuition funds pledged to the repayment of State institution bonds. The Series 2001 Athletic Facilities Revenue Bonds are payable from and secured by a pledge of two sources of revenue: the Athletic Facility Fee and the Athletic Fee.

The Citadel has secured an insurance contract for The Series 1997 Revenue Bonds that guarantees payment of principal and interest, in the case such required payment has not been made, for a period equal to the final maturity of the bonds. Certain of the bonds payable are callable at the option of The Citadel.

In prior years, The Citadel defeased various bond issue by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The liability of the defeased bonds has been removed from The Citadel's long-term debt and the trust account assets are

NOTE 12—BONDS AND NOTES PAYABLE (continued)

not included in these statements. At June 30, 2002, $8,875,000 of revenue bonds are outstanding defeased debt.

As of June 30, 2002, The Citadel has no accrued arbitrage liability.

The scheduled maturities of the bonds payable by type are as follows:

State Institution Bonds	Principal	Interest	Payments
2003	$ 285,000	$ 176,031	$ 461,031
2004	300,000	158,783	458,783
2005	320,000	140,326	460,326
2006	335,000	121,208	456,208
2007	355,000	102,132	457,132
2008 – 2012	900,000	367,401	1,267,401
2013 – 2017	1,135,000	137,670	1,272,670
	$ 3,630,000	$1,203,551	$ 4,833,551

Revenue Bonds	Principal	Interest	Payments
2003	$ 1,040,000	$ 1,121,919	$ 2,161,919
2004	4,080,000	1,071,219	5,151,219
2005	1,145,000	896,469	2,041,469
2006	1,210,000	840,650	2,050,650
2007	1,085,000	781,662	1,866,662
2008 – 2012	6,280,000	3,050,375	9,330,375
2013 – 2017	8,055,000	1,279,456	9,334,456
	$ 22,895,000	$ 9,041,750	$ 31,936,750

Note Payable

Note payable secured by Athletic ticket sales, facility rentals and student fees, dated 8/01/81, revised 12/08/89, payable in annual installments of $37,172, matures December 2009, interest rate of 6.8%	$201,737

The scheduled maturities of the note payable is as follows:

Note Payable	Principal	Interest	Payments
2003	$ 23,454	$ 13,718	$ 37,172
2004	25,049	12,123	37,172
2005	26,752	10,420	37,172
2006	28,572	8,600	37,172
2007	30,515	6,657	37,172
2008 – 2009	67,395	6,950	74,345
	$ 201,737	$ 58,468	$ 260,205

NOTE 13—LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2002, was as follows:

	June 30, 2001	Additions	Reductions	June 30, 2002	Due Within One Year
Bonds and Notes Payable and Capital Lease Obligations					
State Institution Bonds	$ 1,025,000	$ 2,750,000	$ (145,000)	$ 3,630,000	$ 285,000
Revenue Bonds	23,885,000	-	(990,000)	22,895,000	1,040,000
Notes Payable	223,697	-	(21,960)	201,737	23,454
Capital Lease Obligations	47,244	57,889	(30,780)	74,353	22,641
Total Bonds, Notes and Capital Leases	25,180,941	2,807,889	(1,187,740)	26,801,090	1,371,095
Other Liabilities					
Accrued Compensated Absences	1,666,663	1,167,768	(1,004,076)	1,830,355	1,050,245
Total Other Liabilities	1,666,663	1,167,768	(1,004,076)	1,830,355	1,050,245
Total Long-Term Liabilities	$ 26,847,604	$ 3,975,657	$ (2,191,816)	$ 28,631,445	$ 2,421,340

Additional information regarding Bonds and Notes Payable is included in Note 12. Additional information regarding Capital Lease Obligations is included in Note 11.

NOTE 14—DEFERRED REVENUES

The composition of deferred revenues as June 30, 2002, is summarized as follows:

Student fees	$ 675,534
Sales and services of educational and other activities	138,050
Sales and services of auxiliary enterprises	113,294
Federal grants and contracts	43,494
State grants and contracts	347
Nongovernmental grants and contracts	28,975
Total deferred revenues	$ 999,694

NOTE 15—DONOR RESTRICTED ENDOWMENTS

The Citadel Trust manages most donor-restricted endowments. If a donor has not provided specific instructions, State law permits The Citadel Trust Board of Directors to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The Citadel Trust chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by The Trust Board of Directors, 5 percent of the average market value of endowment investments at the end of the previous twelve quarters has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income. At June 30, 2002, net appreciation of $3,388,680 is available to be spent, of which $3,351,901 is restricted to specific purposes.

NOTE 16—SPLIT INTEREST AGREEMENTS

During December 1993 a benefactor established a charitable remainder uni-trust, consisting of publicly traded common stock valued at $60,000,000, to which The Citadel Trust, Inc., is entitled to one-third of the remaining assets upon the benefactor's death. Annually the uni-trust is to pay to the benefactor 6% of the net fair market value of the assets in the charitable remainder trust, valued as of the first day of each taxable year of such trust. If income from these assets is insufficient to pay this amount, it will be paid from principal. The Trust is irrevocable and is not managed by The Citadel or The Citadel Trust. Since the ultimate amount received cannot be reasonably estimated, and the eligibility requirement for this gift has not been met, these uni-trust assets are not included in these financial statements.

During fiscal year 1999 another donor established a charitable remainder trust (CRT), consisting of assets valued at less than $600,000, to which The Trust is entitled to all of the remaining assets upon the death of the CRT beneficiaries. The pledge for the CRT is restricted for scholarships. The Trust is irrevocable and is not managed by The Citadel or The Citadel Trust. Since the ultimate amount received cannot be reasonably estimated, and the eligibility requirement for this gift has not been met, these trust assets are not included in these financial statements.

During fiscal year 2000 a donor established a charitable gift annuity that provides for fixed payments to the donor for his lifetime. At the termination of the agreement the remaining assets of the gift annuity will become available to The Citadel Trust for general institutional purposes. This annuity fund is held and separately managed by The Citadel Trust. At the end of each fiscal year an adjustment is made between the liability and the nonexpendable net asset value to record the actuarial gain or loss due to the recomputation of the present value of the liability based on the revised life expectancy of the donor. At June 30, the present value of the annuity payable was $33,776.

NOTE 17—RELATED PARTIES

Certain separately chartered legal entities whose activities are related to those of The Citadel exist primarily to provide financial assistance and other support to The Citadel and its educational program. Financial statements for these entities are audited by independent auditors and retained by them. They include The Citadel Foundation (TCF), The Brigadier Foundation (TBF), and The Citadel Alumni

NOTE 17—RELATED PARTIES (continued)

Association (CAA). The activities of these entities are not included in The Citadel's financial statements. However, The Citadel's statements include transactions between The Citadel and these related parties.

In conjunction with its implementation of GASB Statement No. 14, management reviewed its relationships with the entities described in this note. The Citadel excluded these entities from the reporting entity because it is not financially accountable for them. As an amendment to Statement 14, the GASB has issued Statement No. 39 providing additional guidance to determine if these entities should be reported as component units in financial statements for periods beginning after June 15, 2003. Management will again review its relationship with these entities in accordance with the new standard at its effective date.

Following is a more detailed discussion of each of these entities and a summary of significant transactions (if any) between these entities and The Citadel for the year ended June 30, 2002.

The Citadel Foundation (TCF) was established in 1961 as The Citadel Development Foundation, a separately chartered corporation. The Foundation's original goal was to support academic programs at The Citadel. In August 2000, The Citadel Development Foundation amended its charter to establish The Citadel Foundation as the College's official fundraising entity. TCF handles all gifts to the Foundation; gifts to restricted accounts, programs, and activities at the College; and gifts to The Citadel Brigadier Foundation and The Citadel Alumni Association for their specific activities and programs. TCF is governed by a board comprised of directors of the former Citadel Development Foundation, plus three other ex-officio members: the chairman of The Citadel Board of Visitors, the president of The Citadel, and a representative from The Citadel Brigadier Foundation.

As the College's official fundraising organization, TCF solicits, receives, manages and disburses contributions to The College. Contributions to TCF programs are retained at the Foundation, while gifts to restricted programs and endowments at the College, as well as gifts to The Citadel Brigadier Foundation and the Citadel Alumni Association, are forwarded to the respective organizations.

For the fiscal year ending June 30, 2002, TCF collected contributions of $3,058,763 on behalf of The Citadel. $909,710 of this total was recorded as gifts, and $2,149,053 was recorded as additions to permanent endowments in nonoperating revenues. The Citadel reimbursed TCF for direct expenses of $45,378 and paid TCF a fee of $1,363 for its fundraising services based on a percentage of total gifts collected.

In addition, The Citadel recorded non-governmental grants of $4,183,258 from TCF in nonoperating revenues for the fiscal year ending June 30, 2002. These funds were used to support scholarships and various academic programs at the College.

A summary of other transactions and balances at June 30, 2002, follows:

Reimbursement to The Citadel for certain expenses incurred on behalf of TCF	$ 208,609
Funds received by The Citadel for TCF's share of *Citadel Magazine's* publication costs	$ 21,359
Balance due from TCF	-0-

NOTE 17—RELATED PARTIES (continued)

The Brigadier Foundation (TBF) is a separately chartered corporation organized exclusively to receive and manage private funds for support of athletic programs at The Citadel. TBF's activities are governed by its Board of Directors.

Funds raised by TBF are used to provide scholarships for varsity athletes at The Citadel. The Citadel recorded gifts of $1,200,000 from TBF in nonoperating revenues for the fiscal year ending June 30, 2002. These funds were used to support athletic scholarships at the College.

TBF is indebted to The Citadel for $89,000 as of June 30, 2002, for the athletic grants-in-aid on an interest-free note dated October 10, 1984, in the original amount of $208,436. The Citadel has not established a payment schedule for this loan.

A summary of other transactions and balances at June 30, 2002, follows:

Reimbursement to The Citadel for certain expenses incurred on behalf of TBF	$ 1,584,087
Funds received by The Citadel for TBF's share of *Citadel Magazine's* publication costs	$ 14,006
Balance due from TBF	-0-

Citadel Alumni Association is a separately chartered corporation organized exclusively to promote alumni activities at The Citadel. CAA's activities are governed by its Board of Directors.

The College shares the costs of operating the newly renovated John Monroe Holliday Alumni Center building with CAA. Expenses related to routine operations of the alumni center are allocated based on the joint use of the building by Citadel staff who function as both the College Alumni Office and the Alumni Association Office. All expenses related to income production are borne by the Alumni Association. The Alumni Association prepares an annual accounting of the net income of rental activities each May. After covering Alumni Association income producing costs, any amount remaining is split on the same basis as building operating expenses. For the year ending June 30, 2002, The Citadel's share of John Monroe Holliday Alumni operating profits was $118,567 and is recorded as other nonoperating revenue.

A summary of other transactions and balances at June 30, 2002, follows:

Reimbursement to The Citadel for certain expenses incurred on behalf of CAA	$ 425,389
Funds received by The Citadel for CAA's share of *Citadel Magazine's* publication costs	$ 45,601
Balance due from CAA	$ 21,058

NOTE 18—TRANSACTIONS WITH STATE ENTITIES

The Citadel is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to

NOTE 18—TRANSACTIONS WITH STATE ENTITIES (continued)

the General Fund of the State unless the College receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is The Citadel's base budget amount presented in the General Funds column of Sections 5D and 23 of Part IA of the 2001-02 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2002:

State Appropriations	
Original appropriation	$ 18,188,194
Less 4% reduction	(748,236)
Less 2.52 % reduction	(452,534)
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related Employee Benefits	517,718
Appropriation allocations from the State Commission on Higher Education:	
For Academic Endowment Match	148,712
For Performance Funding	56,333
Total State Appropriation Revenues	$ 17,710,187
State Capital Appropriations	
Capital Improvement Bond Acts	$ 2,776,700
Less prior year CIB receivable	(138,050)
Total capital appropriations recorded as current year revenue	$ 2,638,650

The Citadel received substantial funding from the Commission on Higher Education (CHE) for scholarships on behalf of students that are accounted for as operating State grants and contracts. Additional amounts received from CHE are accounted for as operating revenues, based on the requirement of deliverables with a current or potential future economic value. The Citadel also receives State funds from various other State agencies for public service projects. Following is a summary of amounts received from State agencies for scholarships, sponsored research and public service projects for the fiscal year ended June 30, 2002:

Other amounts received from State agencies	**Operating Revenue**	**Nonoperating Revenue**
Received from the Commission on Higher Education (CHE):		
LIFE Scholarships	$ 648,000	$ -
Palmetto Scholarships	26,513	-
Need-Based Grants	121,450	-
Access and Equity Competitive Grants	-	13,437
Gaining Early Awareness and Readiness for Undergraduate Programs	-	86,893
Received from various other state agencies	32,997	-
	$ 828,960	$ 100,330

NOTE 18—TRANSACTIONS WITH STATE ENTITIES (continued)

The Citadel provided no significant services free of charge to any State agency during the fiscal year. Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking, bond trustee and investment services from the State Treasurer; legal services from the Attorney General; and grants services from the Governor's Office.

Other services received at no cost from the various offices of the State Budget and Control Board include pension plan administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The Citadel had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans employee and employer contributions, insurance coverage, office supplies, and interagency mail. Significant payments were also made for unemployment and workers' compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 2002 expenditures applicable to related transactions with State entities are not readily available.

NOTE 19—RISK MANAGEMENT

The Citadel is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

The Citadel and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Natural disasters
- Medical malpractice claims against the Infirmary

NOTE 19—RISK MANAGEMENT (continued)

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The Citadel obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

NOTE 20—ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

All State agencies and institutions were required to adopt a capitalization limit of $5,000 for movable personal property (including library materials) and $100,000 for depreciable land improvements, buildings and improvements, and intangible assets, as of July 1, 2001. As a result of the change in asset capitalization policy, The Citadel removed capitalized assets on hand at July 1, 2001, which did not meet the new capitalization levels.

As a result of the adoption of GASB Statements No. 34 and 35, as discussed in Note 1, The Citadel was also required to make certain changes in accounting principles, specifically the adoption of depreciation on capital assets and the reclassification of the Perkins Loan fund balance as a liability to the Federal government.

The Citadel corrected an error involving the application of accounting principles. In previous years revenues from State capital improvement bonds were recognized when the bonds were authorized by the legislature. Because The Citadel is entitled to seek reimbursement for construction costs only to the extent of expenses incurred for the approved capital projects, certain capital improvement bond proceed revenue previously recognized had not been earned at June 30, 2001.

The Citadel has restated its beginning net assets as of July 1, 2001, for the above accounting changes and error corrections, which are disclosed in the following schedule.

Net Assets, July 1, 2001, As Previously Reported	$ 160,134,236
Restatement Adjustments:	
Liability to Federal Government for Perkins Loan Program	(483,103)
Change in Capitalization Levels	(5,508,606)
Accumulated Depreciation of Capital Assets	(30,893,073)
Capital Improvement Bond Proceeds Revenue	(9,844,238)
Net Assets July 1, 2001, As Restated	$ 113,405,216

NOTE 21—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2002, are summarized as follows:

	Compensation and Benefits	Supplies and Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 14,202,056	$ 1,254,780	$ 279	$ -	$ -	$ 15,457,115
Research	91,707	142,306	-	-	-	234,013
Public Service	602,872	1,341,648	2,754	-	-	1,947,274
Academic Support	2,937,426	2,176,859	-	-	-	5,114,285
Student Services	3,457,068	1,657,079	15,469	-	-	5,129,616
Institutional Support	4,458,497	614,820	-	-	-	5,073,317
Olperations & Maint. of Plant	3,153,793	2,619,650	1,164,135	-	-	6,937,578
Scholarships & Fellowships	7,783	136,846	-	2,126,773	-	2,271,402
Auxiliary Enterprises	5,070,620	12,705,864	1,046,169	-	-	18,822,653
Depreciation	-	-	-	-	3,222,494	3,222,494
Total Operating Expenses	$ 33,981,822	$ 22,649,852	$ 2,228,806	$ 2,126,773	$ 3,222,494	$ 64,209,747

NOTE 22 - SUBSEQUENT EVENTS

The College received an award of $15 million in federal funds on 1 July to assist in the construction of Padgett-Thomas Barracks. The addition of these funds provided the incremental funding needed to construct the barracks.

At its meeting in September 2002, the Board of Visitors passed a resolution providing for the issuance and sale of Athletic Facility Revenue Bonds and a series resolution to issue debt up to $3.5 million. The College intends to issue debt in the spring of 2003 to pay off the $3 million Athletic Facility Revenue Bond due in February 2004.

NOTE 23—INFORMATION REQUIRED FOR STATE CAFR

	Citadel	Component Unit	Total
Charges for services	$ 34,428,336	$ -	$ 34,428,336
Operating grants and contributions	13,790,926	1,415,838	15,206,764
Capital grants and contributions	2,786,244	13,547	2,799,791
Less expenses	(65,393,190)	(3,978,984)	(69,372,174)
Net program revenue (expense)	(14,387,684)	(2,549,599)	(16,937,283)
Transfers:			
State appropriation	17,710,187	-	17,710,187
Total transfers	17,710,187	-	17,710,187
Change in net assets	3,322,503	(2,549,599)	772,904
Net assets - beginning, as restated	65,569,352	47,835,864	113,405,216
Net assets - ending	$ 68,891,855	$ 45,286,265	$ 114,178,120

THE CITADEL
The Military College of South Carolina
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2002

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Expenditures
Direct Programs:			
U.S Department of Justice			
South Carolina Police Corp	16.712	None	1,464,065
Enforcing Underage Drinking Laws	16.727	CID-EUDL-2	10,792
Total U. S. Department of Justice			1,474,857
U.S Department of Labor			
School-to-Work Opportunities Initiative	17.249	00VS015	14,378
Promotion of the Humanities			
The Citadel Conference on the South	45.129	98-0635-11	5,544
Blacks and Women in the American Military	45.129	1-0808-1	1,622
			7,166
U.S Department of Education			
Supplemental Educational Opportunity Grant	84.007	P007013769	72,670
Federal Work Study	84.033	P033A73769	23,095
Federal Perkins Loan Program	84.038	P038A73769	3,175
Federal Pell Grant Program	84.063	P063P011532	846,137
William D. Ford Direct Loan Program	84.268	None	10,347,469
Eisenhower Professional Development Higher Education Program	84.281B	None	24,079
Total U. S. Department of Education			11,316,625
U.S. Department of Commerce			
Passed through SC Sea Grant Consortium:			
Sea Grant Support	11.417	NA86RG0052	11,082
U.S. Department of			
Passed through Clemson University:			
Troops to Teachers	12.999	2002373	8,447
NASA			
Passed through The College of Charleston:			
SC Space Grant Consortium	43.001	NGT5-4099	5,261
Passed through The Catholic University of America			
Abundance of Heavy Elements in Late B and Early A Stars	43.001	362290-1SC	13,717
Total NASA			18,978
National Science Foundation			
Passed through The College of Charleston:			
Automatic Photometric Telescope for Research	47.049	AST-0071260	10,366
Passed through The University of NC at Greensboro			
Southern Grassroots Party Activist Project 2001	47.049	SES-9986501	2,755
Total National Science Foundation			13,121
U.S. Department of Education			
Passed through The SC Commission on Higher Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334A990172	71,783
Passed through the National Writing Project Corp.			
National Writing Project	84.928	99-SC09	24,565
Total U.S. Department of Education			96,348
Total Federal Assistance Expended			12,961,002

The Schedule of Expenditures of Federal Awards has been prepared on the cash basis of accounting.

CHERRY
BEKAERT &
HOLLAND

CERTIFIED PUBLIC
ACCOUNTANTS &
CONSULTANTS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Office of the State Auditor
and
Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

We have audited the financial statements of The Citadel, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 30, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether The Citadel's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 02-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Citadel's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting its operation that we considered to be material weaknesses.

This report is intended for the information and use of the Board of Visitors, management, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cheny, Bekaert & Holland, L.L.P.

Florence, South Carolina
September 30, 2002

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Office of the State Auditor
and
Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

Compliance

We have audited the compliance of The Citadel with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The Citadel's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of The Citadel's management. Our responsibility is to express an opinion on The Citadel's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Citadel's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The Citadel's compliance with those requirements.

In our opinion, The Citadel complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of The Citadel is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The Citadel's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of The Board of Visitors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Florence, South Carolina
September 30, 2002

THE CITADEL
The Military College of South Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2002

I. Summary of auditor's results

A. An unqualified opinion dated September 30, 2002 was issued on the financial statements of The Citadel.
B. Our audit of the financial statements disclosed no reportable conditions related to internal control over financial reporting.
C. Our audit of the financial statements disclosed one instance of noncompliance with laws, regulations and the provisions of contracts and grant agreements that is material to the financial statements.
D. An unqualified opinion dated September 30, 2002 was issued on The Citadel's compliance with the types of compliance requirements applicable to its major federal programs.
E. There are no findings related to internal control over major programs required to be reported under Section .510 of OMB Circular A-133.
F. Major federal programs for The Citadel for the fiscal year ended June 30, 2002 are:

CFDA Number	Program Title
84.007	Supplemental Educational Opportunity Grant
84.033	Federal Work Study
84.038	Federal Perkins Loan Program
84.063	Pell Grant Program
84.268	William D. Ford Direct Loan Program
16.268	Police Corp

G. The threshold for determining major federal programs for The Citadel was $388,830.
H. The Citadel was assessed as a low risk auditee under Circular No. A-133.

II. Findings related to the Audit of the financial statements of The Citadel

Finding 02-1:

Criteria: South Carolina law requires auxiliary enterprises to be self-supporting.

Condition: The Citadel print shop had a deficit fund balance at June 30, 2002.

Questioned Costs: None.

Context: The Citadel print shop had an excess of expenses over revenues during the year ended June 30, 2002.

Effect: The Citadel print shop was in violation of SC state law for the year ended June 30, 2002.

Cause: Expenses exceeded revenues for the year ended June 30, 2002.

Recommendation: The Citadel should develop a plan whereby revenues will exceed expenses for the year ending June 30, 2003.

III. Findings and questioned costs related to the audit of federal awards

No findings and questioned costs for federal awards were noted that are required to be reported under Section .510 (a) of OMB Circular A-133.

The Citadel developed and implemented a corrective action plan regarding Title IV refunds of federal funds. The finding is not repeated in the current year.